# ALBERTA MUNICIPAL FINANCING

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The Sir Frederick W. Haultain Building (above the Legislature Building).

(Standing L to R) — M.J. Schmitke, R.L. Ardiel, A.J. McPherson, H.H. Strohbach, D.H. Vizina, R.A. Splane.
(Seated L to R) — A.R. Grover, A.F. Collins, M.R. Parker, F.G. Stewart.

## Directors

**Appointed**

A.F. Collins
A.R. Grover
A.J. McPherson
R.A. Splane
F.G. Stewart

**Elected**

M.R. Parker
*Representing Class B shareholders*

R.L. Ardiel
*Representing Class C shareholders*

M.J. Schmitke
*Representing Class D shareholders*

D.H. Vizina
*Representing Class E shareholders*

## Officers

A.F. Collins
*President and Chairman of the Board*

C.P. Hayes
*Honorary Chairman*

M.R. Parker
*Vice-President*

H.H. Strohbach
*General Manager*

G.T. Dodds
*Secretary-Treasurer*

## Offices

Sir Frederick W. Haultain Building
9811 - 109 Street
Edmonton, Alberta
T5K 0C8
Telephone (403) 427-9711

# President's Report

February 20, 1987

A. F. Collins
*President and Chairman of the Board*

It is my privilege to present the annual report of the Alberta Municipal Financing Corporation for the year ended December 31, 1986. Although there was little change in the volume of loans issued in 1986, a number of important decisions affecting the operations of the corporation were taken by your Board of Directors during the year. These are discussed further in this report and in the report of the General Manager.

New loans issued to shareholders in 1986 remained at about the same level as in the previous year although loans for school purposes accounted for almost 50 per cent of the total loans issued in 1986 compared to 42 per cent in 1985. The loan portfolio passed the $5 billion mark during the year with the outstanding balance at December 31, 1986 totalling $5.1 billion. Shareholders have been canvassed respecting capital requirements for 1987 and it appears that new loans for 1987 will remain at about the same level as in 1986. The details of the 1987 forecast are set out in the Schedule of Estimated Requirements on Page 4 following this report.

As in 1985, the corporation's lending rates continued to decline during 1986. The rate for a 20-year term loan fell from 11 per cent at the beginning of 1986 to 10 per cent at year end. Further rate reductions have occurred in the early months of 1987. Loan prepayments in 1986 dropped to $9 million compared to $27 million in 1985, which is due in part to increased stop-loss payments required as interest rates fell.

During 1986 the corporation retired $248 million in short-term debt that was originally borrowed at interest rates ranging from 15⅞ per cent to 18 per cent. The funds to repay this debt were obtained at a cost of about 10 per cent. Your Board of Directors decided that this substantial interest saving should be passed back to shareholders who borrowed at similar high rates. As a result, all loans carrying interest rates above 14 per cent were reduced to 14 per cent effective January 1, 1987. If interest rates remain at present levels, a further reduction in rates may be possible after the 1987 maturities have been paid out. The Board has also decided to use accumulated sinking funds assets to assist in retiring the short-term debt maturing in 1987 rather than refinancing the debt in the public bond market, (as further explained in the General Manager's report).

In a national context, municipal borrowing in 1986 produced gross new issues of approximately $1.5 billion in public markets. This, in addition to an estimated $500 million issued directly to provinces and their agencies, totalled about $2 billion compared to about $1.4 billion in 1985. The increase in borrowing was reflected in both public and non-public markets with the proportion of financing in the public market rising to 75 per cent from a little under 70 per cent a year before. External financing was characterized by serial issues with blended annual payments.

Municipal borrowing abroad in 1986 rose to over $800 million — up from a little over $500 million in 1985 and close to $775 million in 1984. Foreign borrowing represented about 41 per cent of the total new financing in 1986 as opposed to 36 per cent in 1985. As in previous years, there was little borrowing done in the United States. Most foreign borrowing was concentrated in the Eurobond market where substantial savings in borrowing costs were available.

In Canada, the rate of economic growth in 1986 was about 3 per cent while inflation was quite moderate at around 4 per cent, as measured by the Consumer Price Index. The combination of stable economic growth and lower inflation have created a cautious optimism among those involved in municipal financing that lower interest rates will be maintained for some time. At the same time, an environment of prudence persists as shown by an increasing number of municipal authorities preferring to finance capital projects on a pay-as-you-go basis.

In closing, I want to express my sincere appreciation to our directors and staff for the efficient management of the affairs of the corporation over this past year. Four new directors were introduced at the last annual meeting and have served their first

year on the Board. They are Messrs. R.L. Ardiel, A.R. Grover, A.J. McPherson and D.H. Vizina. Mr. A.F. Womack and Mr. E. Murray representing the Class C and Class E shareholders respectively, chose not to stand for re-election at the last annual meeting and each was presented with a plaque in appreciation of dedicated service to the Board.

A. F. Collins
*President and Chairman*
*of the Board*

## Schedule of Estimated Requirements

(thousands of dollars)

| | 1987 Estimated | 1986 Actual | 1985 Actual |
|---|---|---|---|
| **By Jurisdiction** | | | |
| Cities | $186,000 | $150,023 | $174,688 |
| Towns | 15,000 | 12,997 | 13,837 |
| Villages | 3,000 | 1,768 | 1,818 |
| Counties, municipal districts and other | 37,000 | 34,907 | 34,861 |
| Hospital and nursing home districts | 2,000 | 800 | — |
| School divisions and districts | 93,000 | 123,093 | 112,341 |
| Universities and colleges | 4,000 | 13,600 | — |
| | $340,000 | $337,188 | $337,545 |
| **By Purpose** | | | |
| Municipal | $208,000 | $168,889 | $196,614 |
| Hospital | 2,000 | 800 | 25 |
| School | 130,000 | 167,499 | 140,906 |
| | $340,000 | $337,188 | $337,545 |

# General Manager's Report

February 20, 1987

H. H. Strohbach
*General Manager*

While total loans issued of $337.2 million in 1986 remained virtually unchanged from the previous year's total, loans for municipal purposes decreased by about $28 million or 14 per cent, while loans for school purposes increased by about $27 million or 19 per cent over the previous year. This is the second consecutive year that school loans have increased by a significant percentage while municipal loans have been declining steadily over the past four years.

All funds required for lending in 1986 were provided by the Canada Pension Plan (CPP) Investment Fund. Borrowings from the CPP Investment Fund in 1986 totalled $395 million at an average cost of 9.82 per cent. The amounts available from the Fund in 1986 increased by nearly $112 million compared to 1985 while the average interest rate dropped by 1.82 per cent. The 20-year term on debentures sold to the CPP Investment Fund remained unchanged from prior years.

The corporation's first consolidated borrowing from the CPP Investment Fund in 1966, in the amount of $40.8 million, matured on December 1, 1986 and was paid in full on that date with funds accumulated for this purpose in the sinking fund. In addition, a 5½ per cent $25 million public Canadian debenture issue matured on November 1, 1986 which was also fully provided for and paid from the sinking fund.

The gross debt of the corporation increased by $79.1 million during the year to total $5.9 billion at year end. Most of this debt is held by the CPP Investment Fund, as set out in the table at the end of this report which summarizes the corporation's historical sources of capital. Sinking funds assets totalled $1.2 billion at December 31, 1986.

The year 1986 marked the beginning of a four-year period of short-term debt repayments to the Provincial Treasurer that will total just over $1 billion. Three five-year borrowings totalling $248 million were repaid in 1986 to the Provincial Treasurer as follows:

| | | |
|---|---|---|
| September 1, 1986 | 16% | $ 78 million |
| October 15, 1986 | 18% | 100 million |
| December 1, 1986 | 15⅞% | 70 million |

Only about $28 million had been accumulated in the sinking fund for these three issues. The remaining $220 million in debt retirement was provided from the principal portion of regular loan repayments by shareholders.

While the sum of all debt repayments in 1986 was relatively large at over $315 million, the year 1987 will set a new record for debt maturities and retirements in a single year. Total 1987 debt maturities amount to $625 million as follows:

| | |
|---|---|
| Provincial Treasurer ..... | $541 million |
| CPP Investment Fund ..... | 55 million |
| Public (Canadian and U.S.) | 29 million |
| | $625 million |

Although the CPP and the Public issues will again be fully provided for in the sinking fund, it is estimated that only $51 million will have been accumulated in the sinking fund for the debt owing to the Provincial Treasurer. This would have resulted in a significant amount of refinancing in 1987 had it not been for a change in the sinking fund policy, as approved by your Board of Directors effective with the 1986 fiscal year.

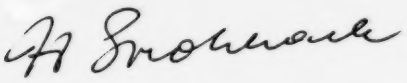
This new sinking fund policy recognizes that future annual loan repayments by shareholders will be sufficient in most years to retire the corporation's debt as it matures. Specifically, the new policy provides for

- no further voluntary contributions to the sinking fund for outstanding debt owed to the CPP Investment Fund and the Provincial Treasurer;
- use of some assets accumulated in the sinking fund to help retire the short-term debt of the corporation maturing between 1986 and 1989; and
- use of additional accumulated assets to make loans to shareholders, starting in 1988.

The new policy also provides for continued annual sinking fund contributions for all public debentures where these are a condition of the original debenture sale, as well as the maintenance of sufficient sinking fund assets to help retire a large volume of debentures maturing in the year 2000 that are held by the Provincial Treasurer and the CPP Investment Fund.

This new policy will reduce the annual borrowing requirements of the corporation and facilitate the repayment of our short-term debt in the years 1987 to 1989 from internal sources.

I would like to take this opportunity to express my sincere appreciation to the President and Board of Directors, our staff and the many employees of Alberta Treasury who have provided services to the corporation in 1986, especially during my prolonged absence due to illness.



H. H. Strohbach
*General Manager*

## Sources of Capital

(thousands of dollars)

| | Gross Outstanding December 31, 1986 | Outstanding as a Percentage of Total |
|---|---|---|
| Canada Pension Plan Investment Fund | $3,623,022 | 61.7% |
| Government of Alberta | 1,476,000 | 25.2 |
| Public: | | |
| Canada | 764,180 | 13.0 |
| United States | 7,936 | .1 |
| Total | $5,871,138 | 100.0% |

## How the Corporation Functions

**PURPOSE**

The Alberta Municipal Financing Corporation is a non-profit corporation. It assists municipal jurisdictions within the province to obtain capital funds at the lowest possible cost through access to capital markets which would not be available to them on an independent basis.

**AUTHORITY**

The corporation was established in 1956 under the authority of the Alberta Municipal Financing Corporation Act, being Chapter 3 of the Statutes of Alberta 1956 (R.S.A., 1980 CH. A-33).

**SHAREHOLDERS**

The authorized stock of the corporation consists of the following shares with a par value of $10 each:

- 4500 Class A, available only to the Crown
- 1000 Class B, available only to municipalities (defined as including municipal districts, counties, improvement districts and special areas) and to approved hospitals and hospital districts
- 750 Class C, available only to cities
- 750 Class D, available only to towns and villages
- 500 Class E, available only to school districts and divisions.

The business of the corporation is administered by a board of directors. The Lieutenant Governor in Council appoints five directors to represent the Class A common shareholder. Each of the other four classes of shareholders elects one director to the Board.

All applications for loans from the corporation, except those for hospital purposes, must have the approval of the Local Authorities Board of the Province as evidence that the applicant has satisfied the provisions of provincial legislation related to the borrowing. Maximum terms of loans for various projects are prescribed in the by-law relating to the terms and conditions for lending money to shareholders.

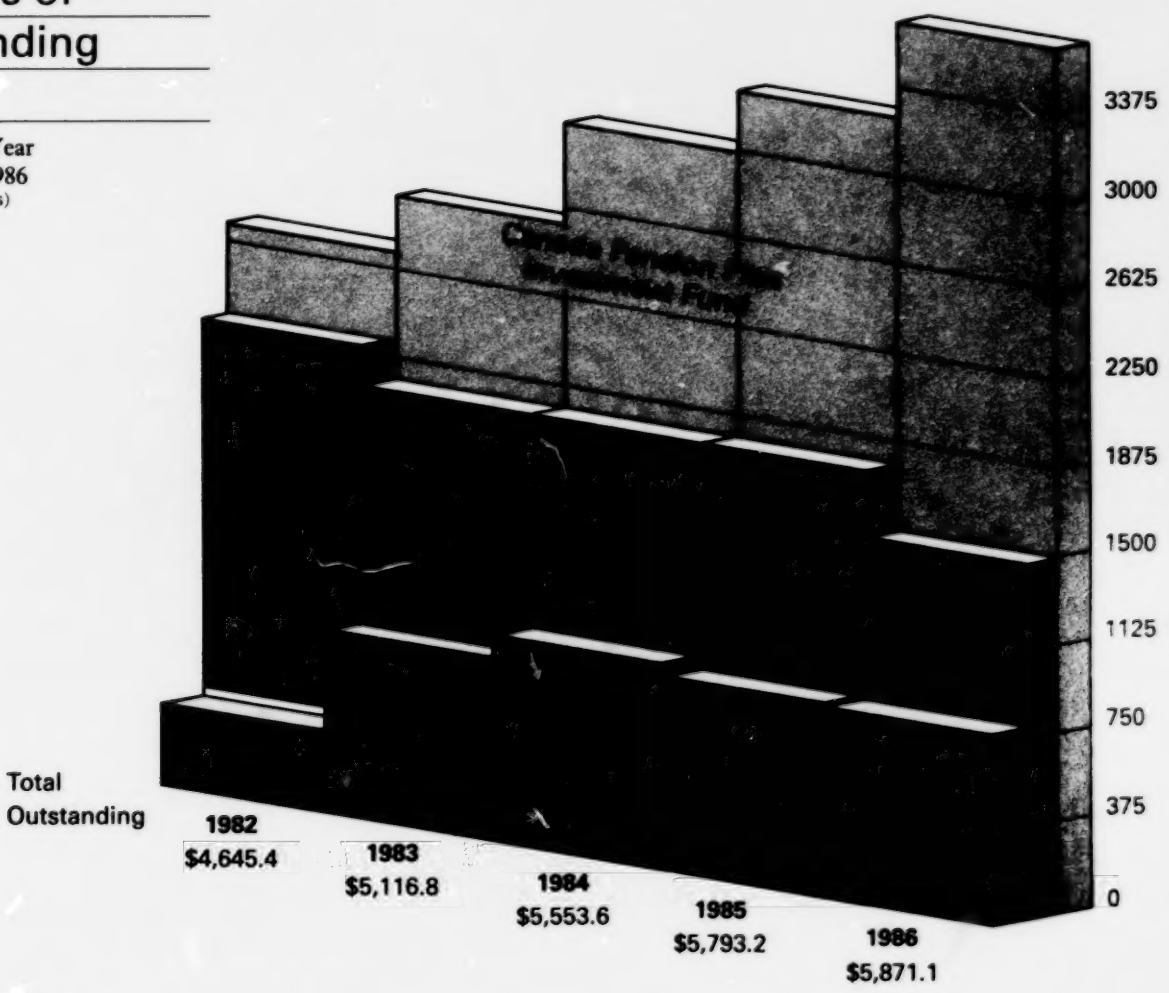
Funds are paid to borrowers in exchange for debentures. Loans to municipal and hospital authorities are secured by debentures repayable in equal annual instalments of blended principal and interest. Loans for school purposes are secured by debentures repayable in equal annual instalments of principal plus interest.

**FINANCING**

The corporation issues various debt obligations to obtain the funds necessary to finance loan requirements. These obligations of the corporation carry the unconditional guarantee of the Province of Alberta.

## Analysis of Outstanding Debt

For the Five-Year Period 1982-1986
(millions of dollars)



## Analysis of New Loans Issued

By Jurisdiction
and Purpose
For the Year Ended
December 31, 1986
(thousands of dollars)

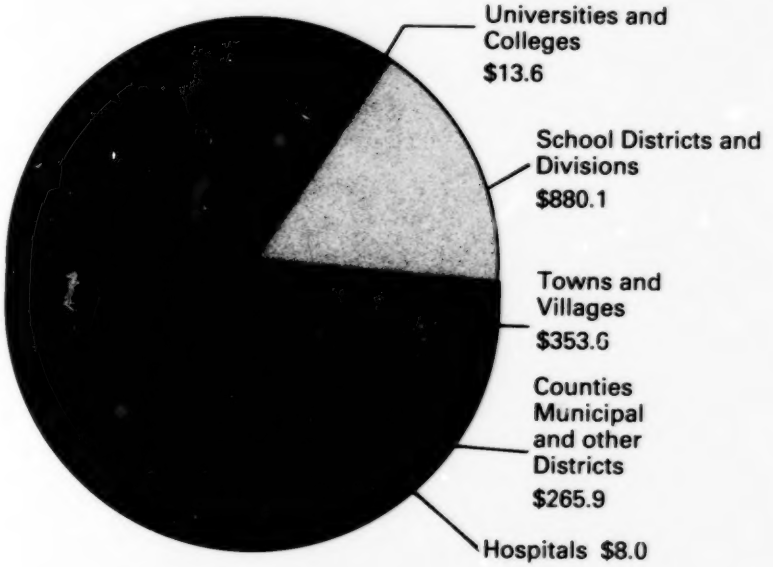
| | Cities | Towns | Villages | Other | Total |
|---|---|---|---|---|---|
| Sewer and water | $ 50,239 | $ 6,032 | $ 896 | $ 3,566 | $ 60,733 |
| Roads and sidewalks | 29,775 | 3,711 | 657 | 476 | 34,619 |
| Transit | 2,167 | – | – | – | 2,167 |
| Land | – | – | – | 725 | 725 |
| Municipal buildings | 1,531 | 1,041 | – | – | 2,572 |
| Equipment and machinery | 855 | 97 | 15 | – | 967 |
| Utilities | 59,070 | 248 | – | – | 59,318 |
| Parks and recreation | 6,386 | 1,202 | 200 | – | 7,788 |
| Hospitals and nursing homes | – | – | – | 800 | 800 |
| Schools | – | 666 | – | 166,833 | 167,499 |
| Total | $150,023 | $12,997 | $1,768 | $172,400 | $337,188 |

## Outstanding Loans

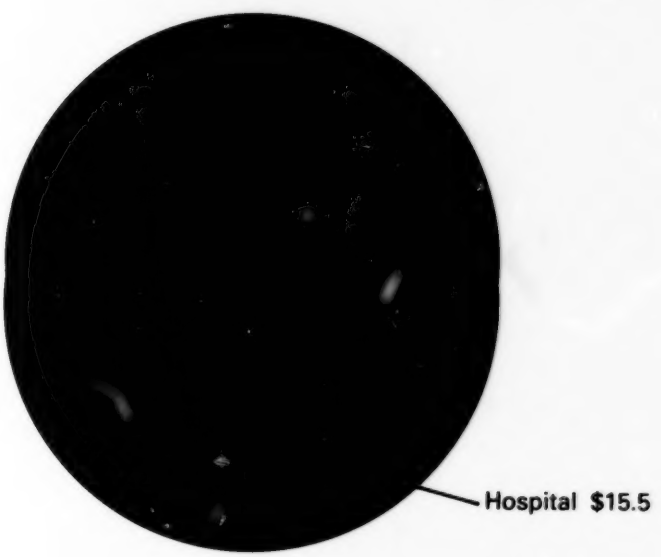
By Jurisdiction
and Purpose
As at December 31, 1986
(in millions of dollars)

**Total Loans Outstanding**
$5,053.5

**Jurisdiction**




**Purpose**



# Schedule of Loans Outstanding

As at December 31, 1986
(thousands of dollars)

| | Principal Outstanding Dec. 31, 1985 | New Loans Issued | Principal Repaid | Principal Outstanding Dec. 31, 1986 |
|---|---|---|---|---|
| **By Jurisdiction** | | | | |
| Cities: | | | | |
| Airdrie | $ 11,071 | $ — | $ 199 | $ 10,872 |
| Calgary | 1,529,801 | 30,000 | 47,921 | 1,511,880 |
| Camrose | 17,357 | 498 | 666 | 17,189 |
| Drumheller | 9,806 | 200 | 368 | 9,638 |
| Edmonton | 1,607,571 | 100,009 | 89,267 | 1,618,313 |
| Fort McMurray | 17,572 | 2,782 | 1,467 | 18,887 |
| Fort Saskatchewan | 10,599 | — | 340 | 10,259 |
| Grande Prairie | 57,746 | — | 1,760 | 55,986 |
| Leduc | 15,418 | 1,694 | 610 | 16,502 |
| Lethbridge | 52,735 | 7,837 | 3,180 | 57,392 |
| Lloydminster | 21,581 | — | 2,862 | 18,719 |
| Medicine Hat | 48,855 | 3,541 | 1,227 | 51,169 |
| Red Deer | 74,396 | 2,093 | 2,432 | 74,057 |
| Spruce Grove | 9,103 | 112 | 496 | 8,719 |
| St. Albert | 38,756 | 865 | 668 | 38,953 |
| Wetaskiwin | 13,666 | 392 | 335 | 13,723 |
| Total Cities | 3,536,033 | 150,023 | 153,798 | 3,532,258 |
| Towns | 316,8. 2 | 12,997 | 16,667 | 313,202 |
| Villages | 40,550 | 1,768 | 1,807 | 40,511 |
| Counties - School | 169,678 | 30,140 | 10,451 | 189,367 |
| Counties - Other | 49,017 | 3,067 | 3,961 | 48,123 |
| Municipal districts | 6,119 | — | 785 | 5,334 |
| Improvement districts | 5,164 | — | 61 | 5,103 |
| Irrigation and water services | 16,561 | 1,700 | 289 | 17,972 |
| Hospitals | 7,426 | 800 | 241 | 7,985 |
| Universities and colleges | — | 13,600 | — | 13,600 |
| School districts and divisions | 808,489 | 123,093 | 51,517 | 880,065 |
| | $4,955,909 | $337,188 | $239,577 | $5,053,520 |
| **By Purpose** | | | | |
| Municipal | $3,960,174 | $168,889 | $176,687 | $3,952,376 |
| Hospital | 15,527 | 800 | 768 | 15,559 |
| School | 980,208 | 167,499 | 62,122 | 1,085,585 |
| | $4,955,909 | $337,188 | $239,577 | $5,053,520 |

# Ten-Year Review: 1977-1986

(thousands of dollars)

| New loans issued during year: | 1986 | 1985 | 1984 |
|---|---|---|---|
| By jurisdiction: | | | |
| Cities | $ 150,023 | $ 174,688 | $ 416,688 |
| Towns and villages | 14,765 | 15,655 | 14,965 |
| County, municipal and other districts | 34,907 | 34,861 | 18,935 |
| Hospitals | 800 | — | — |
| School divisions and districts | 123,093 | 112,341 | 103,381 |
| Universities and colleges | 13,600 | — | — |
| Total | 337,188 | 337,545 | 553,969 |
| By purpose: | | | |
| Municipal | 168,889 | 196,614 | 435,654 |
| Hospital | 800 | 25 | 22 |
| School | 167,499 | 140,906 | 118,293 |
| Total | 337,188 | 337,545 | 553,969 |
| Loans repaid during year | 239,577 | 234,875 | 229,119 |
| New debt issues sold during year | 395,645 | 290,742 | 488,491 |
| Outstanding debenture debt at December 31 | 5,871,138 | 5,793,144 | 5,553,558 |
| Sinking fund assets at December 31 | 1,206,684 | 1,126,810 | 951,144 |
| Retained earnings at December 31 | 535,672 | 429,207 | 355,686 |
| Lending rate at December 31 (based on 20-year term) | 10% | 11% | 13⅛% |

Town of Claresholm

| 1983 | 1982 | 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|---|
| $ 402,621 | $ 858,068 | $ 582,833 | $ 521,309 | $ 333,727 | $ 267,327 | $ 239,524 |
| 31,666 | 62,884 | 99,429 | 94,039 | 89,837 | 62,036 | 52,134 |
| 35,873 | 40,853 | 49,172 | 47,306 | 18,206 | 14,820 | 12,975 |
| 2,359 | 800 | 4,715 | 19,275 | 74,316 | 51,686 | 25,462 |
| 149,677 | 157,183 | 107,726 | 60,734 | 41,893 | 22,980 | 37,258 |
| — | — | — | — | — | — | — |
| 622,196 | 1,119,788 | 843,875 | 742,663 | 557,979 | 418,849 | 367,353 |
| 444,417 | 913,450 | 688,728 | 639,491 | 432,637 | 336,457 | 294,856 |
| 2,978 | 19,332 | 8,715 | 19,275 | 76,316 | 53,808 | 27,956 |
| 174,801 | 187,006 | 146,432 | 83,897 | 49,026 | 28,584 | 44,541 |
| 622,196 | 1,119,788 | 843,875 | 742,663 | 557,979 | 418,849 | 367,353 |
| 211,226 | 118,398 | 101,582 | 400,710 | 669,655 | 91,227 | 76,794 |
| 748,582 | 1,116,673 | 844,111 | 676,439 | 461,392 | 469,576 | 343,413 |
| 5,116,788 | 4,645,360 | 3,529,752 | 2,693,913 | 2,338,364 | 2,407,159 | 2,047,806 |
| 797,845 | 668,897 | 480,475 | 405,756 | 359,266 | 329,917 | 271,432 |
| 290,699 | 233,968 | 128,105 | 121,928 | 102,919 | 103,787 | 83,173 |
| 12⅝% | 13¼% | 16½% | 13¾% | 12% | 10⅜% | 9¼% |

Town of Vermilion

ALBERTA
LEGISLATURE

OFFICE OF THE AUDITOR GENERAL

# Auditor's Report

To the Shareholders
of the Alberta Municipal Financing Corporation

I have examined the balance sheet of the Alberta Municipal Financing Corporation as at December 31, 1986 and the statements of revenue, expenditure and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Donald D. Salmon

C.A.
*Auditor General*

Edmonton, Alberta
February 20, 1987

# Balance Sheet

As at December 31, 1986
(thousands of dollars)

| | 1986 | 1985 |
|---|---|---|
| **Assets:** | | |
| Cash | $ 27,840 | $ 23,972 |
| Accrued interest receivable | 244,654 | 241,038 |
| Loans to municipal authorities | 5,053,520 | 4,955,909 |
| | $5,326,014 | $5,220,919 |
| **Liabilities and Shareholders' Equity:** | | |
| Liabilities: | | |
| Accrued interest payable | $ 138,635 | $ 141,671 |
| Net debenture debt (Schedule 1 and Notes 3 and 4) | 4,651,643 | 4,649,978 |
| | 4,790,278 | 4,791,649 |
| Shareholders' Equity: | | |
| Share capital (Note 5): | | |
| Authorized: 7,500 common shares, par value $10 per share | | |
| Issued and fully paid: | | |
| 1986 - 6,384 shares (1985 - 6,374 shares) | 64 | 63 |
| Retained earnings | 535,672 | 429,207 |
| | 535,736 | 429,270 |
| | $5,326,014 | $5,220,919 |

The accompanying notes are part of these financial statements.

# Statement of Revenue, Expenditure and Retained Earnings

For The Year Ended
December 31, 1986
(thousands of dollars)

| | 1986 | 1985 |
|---|---|---|
| **Revenue:** | | |
| Interest on loans | $661,303 | $657,770 |
| Investment income on sinking fund assets (Note 6) | 160,801 | 117,065 |
| Interest on deposits | 5,467 | 1,761 |
| Fees on loan prepayments | 2,186 | 3,535 |
| Gains on redemption of debenture debt | 210 | 336 |
| | 829,967 | 780,467 |
| **Expenditure:** | | |
| Interest on debentures | 719,086 | 693,186 |
| Amortization of debenture discount | 3,545 | 3,884 |
| Exchange losses on debenture debt | 407 | 754 |
| Administration and office expense | 303 | 316 |
| Interest on short-term notes | 95 | 8,716 |
| Debt service charges | 51 | 79 |
| Directors' and officers' fees and expenses | 15 | 11 |
| | 723,502 | 706,946 |
| Excess of revenue over expenditure for the year | 106,465 | 73,521 |
| Retained earnings, beginning of year | 429,207 | 355,686 |
| Retained earnings, end of year | $535,672 | $429,207 |

# Statement of Changes In Financial Position

For The Year Ended
December 31, 1986
(thousands of dollars)

| | 1986 | 1985 |
|---|---|---|
| **Operating transactions:** | | |
| Excess of revenue over expenditure for the year | $106,465 | $ 73,521 |
| Add (deduct) non-cash items: | | |
| Amortization of gains, losses and discounts related to debenture debt | 3,742 | 4,302 |
| Deferred gains and amortization of premiums and discounts related to sinking fund investments | ( 27,092) | ( 22,084) |
| Increase in accrued interest (net) | ( 6,652) | ( 7,269) |
| Cash provided by operating transactions | 76,463 | 48,470 |
| **Investing transactions:** | | |
| New loans | (337,188) | (337,545) |
| Loan repayments | 239,577 | 234,875 |
| Cash applied to investing transactions | ( 97,611) | (102,670) |
| **Financing transactions:** | | |
| Debenture debt issues: | | |
| Canada Pension Plan Investment Fund | 395,645 | 290,742 |
| Debt retirement: | | |
| Redemption of short-term note payable to the Provincial Treasurer | — | ( 14,694) |
| Redemption of debentures | (317,848) | ( 51,574) |
| Increase in sinking fund assets (net) | ( 52,782) | (153,582) |
| Sale of shares | 1 | — |
| Cash provided by financing transactions | 25,016 | 70,892 |
| Increase in cash | 3,868 | 16,692 |
| Cash at beginning of year | 23,972 | 7,280 |
| Cash at end of year | $ 27,840 | $ 23,972 |

# Notes to the Financial Statements

December 31, 1986

**Note 1 Authority**

The Alberta Municipal Financing Corporation operates under the authority of the Alberta Municipal Financing Corporation Act, Chapter A-33, Revised Statutes of Alberta 1980, as amended.

**Note 2 Significant Accounting Policies and Reporting Practices**

Sinking Fund Assets (Schedule 2)

Sinking Fund assets are recorded at cost. The cost of investments includes the amount of applicable amortization of discount or premium using the straight line method over the life of the investments.

Realized gains and losses on disposals of sinking fund investments are included in the determination of investment income. The cost of investments disposed of is determined on the average cost basis.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

Foreign Exchange

Debenture debt, cash, accrued interest, short-term money market securities and accounts payable denominated in foreign currency are translated at the rate of exchange in effect at the balance sheet date. Investments, other than short-term money market securities, and revenue items are translated at historical exchange rates.

Gains and losses arising from the translation of foreign currencies are included in the determination of net income except:

(i) unrealized exchange gains or losses relating to hedged debenture debt which are deferred until the debt is extinguished, and unrealized exchange gains or losses relating to unhedged debenture debt which are deferred and amortized over the remaining life of the debt, and

(ii) unrealized exchange gains or losses relating to hedged monetary assets which are deferred.

Debenture Discount

Debenture discount, including underwriting commission, arising on the issue of debenture debt is deferred and amortized over the term of the debt. Public debenture issue expenses are charged against income as they arise.

**Note 3 Net Debenture Debt**

(a) The debenture debt of the corporation is fully guaranteed by the Province of Alberta.

(b) Debentures amounting to $3,623,022,000 held by the Canada Pension Plan Investment Fund are redeemable at the option of the Minister of Finance of Canada by giving six months notice in writing to the Provincial Treasurer and observing the other redemption provisions of the debentures.

(c) Debentures are recorded net of sinking fund assets, deferred exchange losses and unamortized discounts.

**Note 4 Commitments (thousands of dollars)**

The payments required to meet sinking fund and debenture redemption requirements during each of the next five years are as follows:

| | Sinking Fund | Debenture Redemption | Total |
|---|---|---|---|
| 1987 | $10,917 | $ 625,683 | $ 636,600 |
| 1988 | 10,875 | 222,221 | 233,096 |
| 1989 | 7,875 | 323,978 | 331,853 |
| 1990 | 7,875 | 80,406 | 88,281 |
| 1991 | 7,875 | 117,130 | 125,005 |
| | $45,417 | $1,369,418 | $1,414,835 |

**Note 5 Share Capital**

Particulars of share capital are summarized hereunder:

| Class | Restricted to | Number of Shares Authorized | Number of Shares Issued and Fully Paid | Total Dollar Amount |
|---|---|---|---|---|
| A | Provincial Treasurer | 4,500 | 4,500 | $45,000 |
| B | Municipalities and hospitals | 1,000 | 850 | 8,500 |
| C | Cities | 750 | 578 | 5,780 |
| D | Towns and villages | 750 | 313 | 3,130 |
| E | Schools | 500 | 143 | 1,430 |
| | | 7,500 | 6,384 | $63,840 |

1 Class B, 4 Class C and 5 Class E shares were issued during the year at $10.00 each. One share was transferred from Class D to Class C.

**Note 6 Investment Income on Sinking Fund Assets**

In previous years, the corporation was required by its by-laws to provide sinking fund assets for all of its debenture debt. In 1986, the corporation's by-laws were changed to require only sinking fund assets for certain public debentures and certain other debentures maturing in 2000. Sinking fund assets in excess of amounts required by the new by-laws will be used to retire debentures as they mature. Commencing in 1988, any remaining excess sinking fund assets will also be available for loans to municipal authorities.

In accordance with the corporation's change in the use of its sinking fund assets, gains and losses, which amounted to $23,196,000 in 1986, realized on the sales of these assets, were included in investment income. Prior to 1986, such gains and losses were considered to be an adjustment of future portfolio yields and as such were deferred and amortized over the lesser of the remaining term to maturity of the investment disposed of or ten years. The net unamortized gain amounting to $6,822,000, which was accumulated in prior years, has been included in investment income this year.

**Note 7 Comparative Figures**

The 1985 figures have been restated where necessary to conform to 1986 presentation.

**Note 8 Approval of Financial Statements**

These financial statements have been approved by management.

**Schedule 1**

# Schedule of Net Debenture Debt

As at December 31, 1986
(thousands of dollars)

| Date of Issue | Maturity Date | Interest Rate | Original Issue | Principal Outstanding |
|---|---|---|---|---|
| ***Provincial Treasurer*** | | | | |
| May 03, 1982 | May 03, 1987 | 15.75% | $ 40,000 | $ 40,000 |
| Jun 15, 1982 | Jun 15, 1987 | 15.375 | 50,000 | 50,000 |
| Aug 03, 1982 | Aug 03, 1987 | 16.875 | 70,000 | 70,000 |
| Sep 01, 1982 | Sep 01, 1987 | 15.50 | 210,000 | 210,000 |
| Sep 15, 1981 | Sep 15, 1987 | 16.25 | 85,000 | 85,000 |
| Nov 16, 1981 | Nov 16, 1987 | 17.25 | 86,000 | 86,000 |
| Mar 01, 1982 | Mar 01, 1988 | 16.00 | 110,000 | 110,000 |
| Jul 15, 1981 | Jul 15, 1988 | 16.00 | 45,000 | 45,000 |
| Nov 01, 1982 | Nov 01, 1989 | 13.50 | 150,000 | 70,000 |
| Nov 01, 1979 | Nov 01, 1999 | 11.70 | 70,000 | 70,000 |
| Mar 03, 1980 | Mar 03, 2000 | 13.45 | 35,000 | 35,000 |
| Jul 02, 1980 | Jul 03, 2000 | 11.75 | 30,000 | 30,000 |
| Aug 15, 1980 | Aug 15, 2000 | 13.20 | 35,000 | 35,000 |
| Nov 17, 1980 | Nov 17, 2000 | 13.75 | 75,000 | 75,000 |
| Dec 01, 1980 | Dec 01, 2000 | 13.65 | 50,000 | 50,000 |
| Dec 17, 1979 | Dec 15, 2000 | 11.85 | 70,000 | 70,000 |
| Dec 15, 1980 | Dec 15, 2000 | 13.60 | 155,000 | 155,000 |
| Mar 02, 1981 | Mar 02, 2001 | 14.10 | 30,000 | 30,000 |
| Jun 15, 1981 | Jun 15, 2001 | 16.25 | 85,000 | 85,000 |
| Oct 01, 1980 | Oct 01, 2001 | 13.66 | 75,000 | 75,000 |
| Total | | | | 1,476,000 |
| ***Canadian Pension Plan Investment Fund [Note 3(b)]*** | | | | |
| Dec 01, 1967 | Nov 01, 1987 | 5.57 | 55,194 | 55,194 |
| Dec 02, 1968 | Nov 04, 1988 | 6.56 | 65,019 | 65,019 |
| Dec 01, 1969 | Nov 03, 1989 | 7.32 | 76,618 | 76,618 |
| Dec 01, 1970 | Nov 02, 1990 | 8.06 | 78,282 | 78,282 |
| Dec 01, 1971 | Nov 01, 1991 | 7.18 | 92,130 | 92,130 |
| Dec 15, 1972 | Jun 01, 1992 | 7.13 | 54,599 | 54,599 |
| Dec 15, 1973 | Sep 04, 1993 | 7.44 | 85,433 | 85,433 |
| Nov 15, 1974 | Oct 01, 1994 | 8.34 | 98,318 | 98,318 |
| Nov 14, 1975 | Oct 01, 1995 | 8.79 | 137,694 | 137,694 |
| Oct 15, 1976 | Sep 01, 1996 | 9.06 | 140,685 | 140,685 |
| Oct 14, 1977 | Sep 01, 1997 | 9.06 | 163,457 | 163,457 |
| Oct 16, 1978 | Sep 01, 1998 | 9.31 | 176,645 | 176,645 |
| Nov 15, 1979 | Oct 01, 1999 | 10.04 | 219,206 | 219,206 |
| Nov 14, 1980 | Oct 01, 2000 | 12.35 | 222,367 | 222,367 |
| Sep 15, 1981 | Aug 01, 2001 | 14.18 | 216,739 | 216,739 |
| Jun 01, 1982 | Jun 01, 2002 | 15.75 | 274,735 | 274,735 |
| Apr 05, 1983 | Apr 05, 2003 | 13.82 | 209,284 | 209,284 |
| Dec 01, 1983 | Dec 01, 2003 | 11.50 | 231,739 | 231,739 |
| Dec 03, 1984 | Dec 03, 2004 | 13.25 | 338,491 | 338,491 |
| Nov 01, 1985 | Nov 01, 2005 | 11.66 | 283,604 | 283,604 |
| Nov 03, 1986 | Nov 03, 2006 | 9.85 | 395,396 | 395,396 |
| Dec 01, 1986 | Dec 01, 2006 | 9.55 | 7,387 | 7,387 |
| Total | | | | 3,623,022 |

| Date of Issue | Maturity Date | Interest Rate | Original Issue | Principal Outstanding |
|---|---|---|---|---|
| ***Public, payable in Canadian dollars*** | | | | |
| June 15, 1965 | Jun 15, 1987 | 5.25 | $ 25,000 | $ 25,000 |
| Aug 15, 1984 | Aug 15, 1989 | 13.50 | 150,000 | 150,000 |
| Nov 01, 1969 | Nov 01, 1989 | 8.00 | 15,000 | 56 |
| Nov 15, 1966 | Nov 15, 1989 | 6.25 | 25,000 | 25,000 |
| Jun 01, 1970 | Jun 01, 1990 | 8.625 | 28,000 | 2,124 |
| Jun 15, 1966 | Jun 15, 1991 | 5.75 | 25,000 | 25,000 |
| May 15, 1967 | May 15, 1992 | 6.00 | 35,000 | 35,000 |
| Mar 15, 1968 | Mar 15, 1993 | 7.25 | 52,000 | 52,000 |
| Jan 18, 1983 | Dec 15, 2002 | 12.25 | 450,000 | 450,000 |
| Total | | | | 764,180 |
| ***Public, payable in United States dollars*** | | | | |
| Nov 15, 1962 | Nov 15, 1987 | 5.00 | 25,000 | 2,384 |
| Dec 15, 1964 | Dec 15, 1989 | 4.625 | 25,000 | 6,611 |
| | | | | 8,995 |
| Less deferred exchange losses | | | | 1,059 |
| Total | | | | 7,936 |
| | | | | 5,871,138 |
| Less: | | | | |
| Sinking fund assets (Schedule 2) | | | | 1,206,684 |
| Unamortized debenture discount | | | | 12,811 |
| Total | | | | 1,219,495 |
| | | | | $4,651,643 |

**Schedule 2**

# Schedule of Sinking Fund Assets

December 31, 1986
(thousands of dollars)

| | Par Value | Book Value | Market Value |
|---|---|---|---|
| **Investments** | | | |
| Bonds and debentures: | | | |
| Government of Canada, direct and guaranteed | $451,228 | $ 459,403 | $ 499,972 |
| Provincial, direct: | | | |
| — Alberta | 10,357 | 10,353 | 10,181 |
| — Other | 49,625 | 49,256 | 53,452 |
| Provincial, guaranteed: | | | |
| — Alberta Municipal Financing Corporation | 117,028 | 115,203 | 115,905 |
| — Other Alberta | 61,336 | 62,945 | 62,810 |
| — Other | 63,225 | 61,517 | 62,575 |
| Corporate | 66,260 | 66,531 | 70,852 |
| Corporate, convertible | 1,050 | 1,040 | 1,135 |
| Municipal | 21,350 | 20,970 | 21,990 |
| Mid-term money market securities: | | | |
| Notes | 9,000 | 8,992 | 9,554 |
| Certificates of deposit | 12,000 | 11,998 | 12,163 |
| United States Treasury notes | 17,253 | 17,182 | 18,056 |
| Mortgages | 8,746 | 8,746 | 9,655 |
| Bond coupons and residuals: | | | |
| Government of Canada, direct | | 160,323 | 163,809 |
| | | 1,054,459 | 1,112,109 |
| Short-term money market securities:① | | | |
| Treasury bills | | 86,924 | 86,924 |
| Total | | 1,141,383 | 1,199,033 |
| **Other Assets:①** | | | |
| Cash | | 42,819 | 42,819 |
| Accrued interest receivable | | 22,482 | 22,482 |
| Total | | 65,301 | 65,301 |
| Total 1986 | | $1,206,684 | $1,264,334 |
| Total 1985 | | $1,126,810 | $1,194,970 |

① Market value is deemed to be book value.